

CITY OF SAN JOSE
2006-2007 PROPOSED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS

Overview

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue and lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, Redevelopment Agency debt, and capital lease obligations.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue and lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City Budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its political subdivisions that has a maturity of 270 days or less. Maturing commercial paper (CP) notes are repaid from the proceeds of sale of new CP notes or bonds or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. The City of San José Financing Authority Reassessment Revenue Bonds, Series 1994A and 1994B, were issued to refund six series of City of San José special assessment bonds.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts (CFDs). The source of repayment for CFD bonds is a special tax on privately owned properties within the CFD.
- **Redevelopment Agency debt** is issued to construct public improvements in redevelopment project areas in accordance with California Community Redevelopment law. The principal source of repayment for Redevelopment Agency debt is future property tax increment revenues.
- The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for General Obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, or motor vehicle transportation services (other than airport service), or telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for any purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. Based on the most recent figure available (July 1, 2005), the total taxable assessed value on the City's 2005-2006 tax roll is estimated at \$99.8 billion, which results in a total debt capacity of approximately \$15.0 billion. As of June 30, 2006, the City estimates it will have approximately \$437.15 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, Redevelopment Agency, and San José-Santa Clara Clean Water Financing Authority total estimated outstanding debt as of June 30, 2006 is \$3.84 billion (See Table A). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's multi-family housing program, was adopted by the City Council on June 11, 2002.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

During 2006-2007, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise, and land-secured financings.

Descriptions of the City of San José's debt activity for 2005-2006 as well as issues planned for 2006-2007 are provided in the following sections.

2005-2006 Debt Issues

The Finance Department partnered with several City departments on projects that resulted in debt financing during 2005-2006.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2005A and Series 2005B** On July 25, 2005, the Redevelopment Agency issued \$152.95 million of Series 2005A and \$67.13 million of Series 2005B tax allocation bonds. The proceeds of the Series 2005A bonds were used to current refund a portion of the Agency's Series 1993 tax allocation bonds and advance refund portions of the Agency's Series 1997 and Series 2002 tax allocation bonds. The proceeds of the Series 2005B bonds were used to current refund portions of the Agency's Series 1998 and Series 1999 tax allocation bonds. Debt service is payable from the Agency's tax increment revenues.

The refunding generated net present value savings of \$6.89 million, representing a 3.06% net present value reduction in debt service payments. The Series 2005A bonds, which are insured by MBIA, bear interest at fixed rates ranging from 3.25% to 5.00%, and have a final maturity date of August 1, 2028. The Series 2005B bonds, which are insured by Ambac, bear interest at fixed rates ranging from 4.50% to 5.00%, and have a final maturity date of August 1, 2015.

- **San José-Santa Clara Clean Water Financing Authority Sewer Revenue Refunding Bonds, Series 2005A and Series 2005B** On October 5, 2005, the Clean Water Financing Authority issued \$54.02 million of Series 2005A and \$27.13 million of Series 2005B sewer revenue refunding bonds. The proceeds of the Series 2005A bonds were used to current refund the Authority's Series 1995A sewer revenue bonds. The proceeds of the Series 2005B bonds were used to current refund the Authority's Series 1995B sewer revenue bonds. Debt service is payable from the Authority's revenues which consist primarily of payments from the City of San José's sewer revenues.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2005-2006 Debt Issues (Cont'd.)

The refunding of the Series 1995A bonds generated net present value savings of \$9.45 million, representing a 14.47% net present value reduction in debt service payments. The redemption of the Series 1995B bonds, which paid interest at weekly variable rates, with proceeds of the variable rate Series 2005B bonds allowed the Authority to achieve a more economic amortization of its variable and fixed rate debt. The Series 2005A bonds, which are insured by FSA, bear interest at fixed rates ranging from 3.25% to 5.00%, and have a final maturity date of November 15, 2016. The Series 2005B bonds, which are also insured by FSA, bear interest at weekly variable rates and have a final maturity date of November 15, 2020.

- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) and closed the following projects while complying with CDLAC regulations:

Allocations awarded on September 21, 2005, resulting in bond issuance in December 2005:

- Paseo Senter I Apartments (\$29,947,600), closed December 21, 2005
- Paseo Senter II Apartments (\$24,679,400), closed December 21, 2005

2005-2006 Planned Debt Issues

The following debt issues are anticipated to close prior to the end of the fiscal year.

- **U.S. Department of Housing and Urban Development (HUD) Section 108 Loan (Land Acquisition Project Phase II)** On February 10, 2005, the City of San José received a loan commitment in the amount of \$25,810,000 from HUD under the Section 108 Loan Guarantee Program for the purchase of property adjacent to the Airport. On February 16, 2005, the City made an initial draw on the loan commitment in the amount of \$342,000 to place a deposit on the property and pay other costs associated with the land acquisition. In May 2006, the City plans to draw on the remainder of the loan commitment to complete the purchase. Debt service on the HUD loan will initially be paid from HUD grant funds received by the City, and then from lease revenue and sales tax revenue generated by commercial activities on the property to be acquired. The HUD Section 108 Loan bears interest at monthly variable rates and has a final maturity date of August 1, 2024.
- **City of San José Financing Authority Lease Revenue Refunding Bonds, Series 2006A (Civic Center Project)** In June 2006, the Authority anticipates issuing approximately \$59 million of lease revenue refunding bonds. The bond proceeds will be used to refund the Authority's Series 2002D lease revenue bonds issued to finance a portion of the costs of the City Hall project. Debt service on the Series 2006A bonds will be paid from the General Fund, special funds, and capital funds.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2005-2006 Planned Debt Issues (Cont'd.)

- **General Obligation Bonds, Series 2006 (Libraries and Parks Projects)** The City anticipates issuing approximately \$110 million of Series 2006 general obligation bonds in June 2006. The proceeds will be used to fund library projects and parks projects. Debt service on the Series 2006 bonds will be payable from ad valorem taxes levied upon all property subject to taxation by the City.

2006-2007 Planned Debt Issues

- **Airport Capital Program Debt Financing** The Finance Department, in partnership with the Airport Department, is developing a financing plan to comprehensively address the needs of the capital program at the Airport. The financing plan is likely to call for issuance of commercial paper or Airport revenue bonds in 2006-2007.
- **City of San José Community Facilities District No. 13 (North Coyote Flood Control) Special Tax Bonds, Series 2006** The City anticipates issuing special tax bonds in fall 2006 to finance the construction of certain flood control improvements necessary for development in the North Coyote Valley. The bonds will be secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 13.
- **4th & St. John Garage Lease Revenue Bonds** The City of San José Financing Authority plans to issue approximately \$30 million of lease revenue bonds in fall 2006 to provide long-term financing for the 4th & St. John Garage adjacent to the City Hall. The bond proceeds would be used to redeem commercial paper issued as an interim financing mechanism during the construction of the Garage. Debt service on the Garage bonds will be paid from the General Fund, special funds, and capital funds.
- **Evergreen • East Hills Vision Strategy Financing Plan** The Finance Department, in partnership with the Department of Planning, Building and Code Enforcement, is exploring financing alternatives to address infrastructure needs, improvements, and amenities identified as part of the Evergreen • East Hills Vision Strategy. A community facilities district could be formed and special tax bonds issued in 2006-2007 to finance a portion of the anticipated project costs.
- **General Obligation Bonds, Series 2007 (Libraries, Parks, and Public Safety Projects)** The City plans to issue another series of general obligation bonds in June 2007. The proceeds of the bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(A) Summary of Estimated Changes in Long-Term Debt for the Year Ending June 30, 2006
(In Thousands of Dollars)

	Balance July 1, 2005	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2006
GENERAL LONG TERM DEBT				
General Obligation Bonds*	337,240	110,100	10,195	437,145
HUD Section 108 Loan*	342	25,468		25,810
Special Assessment Bonds with Limited Governmental Commitment	79,434		4,427	75,007
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 1993B	11,011	280	810	10,481
Lease Revenue Bonds, Series 1997A	6,260		145	6,115
Lease Revenue Bonds, Series 1997B	4,330		1,000	3,330
Lease Revenue Bonds, Series 2000B	22,100		150	21,950
Lease Revenue Bonds, Series 2000C (Taxable)	21,450		800	20,650
Lease Revenue Bonds, Series 2001B (Taxable)	24,000			24,000
Lease Revenue Bonds, Series 2001C (Taxable)	18,500			18,500
Lease Revenue Bonds, Series 2001D	10,800			10,800
Lease Revenue Bonds, Series 2001E	11,935		1,855	10,080
Lease Revenue Bonds, Series 2001F	176,850		5,050	171,800
Lease Revenue Bonds, Series 2002B	292,425			292,425
Lease Revenue Bonds, Series 2002C	60,000			60,000
Lease Revenue Bonds, Series 2002D*	60,000		60,000	0
Lease Revenue Bonds, Series 2003A	21,880		830	21,050
Lease Revenue Bonds, Series 2004A (Taxable)	9,225			9,225
Lease Revenue Bonds, Series 2005A (Taxable)	54,480			54,480
Lease Revenue Bonds, Series 2005B (AMT)	25,545			25,545
Lease Revenue Bonds, Series 2006A*		59,165		59,165
Reassessment Revenue Bonds, Series 1994A	280		280	0
Reassessment Revenue Bonds, Series 1994B (Sub.)	1,015		1,015	0
Revenue Bonds, Series 2001A	45,145		1,275	43,870
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	212,525		3,300	209,225
Housing Tax Allocation Bonds (Subordinate)	66,150			66,150
Redevelopment Tax Allocation Bonds	1,504,100	220,080	254,280	1,469,900
Redevelopment Tax Allocation Bonds (Sub.)	117,600		1,400	116,200
HUD Section 108 Loan	3,920		215	3,705
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	503,885		8,975	494,910
Sewer Revenue Bonds	92,035	81,150	92,035	81,150
TOTAL	3,794,462	496,243	448,037	3,842,668

* June 30, 2006 balance includes preliminary estimates for debt not yet issued or refunded as of the date of publication.

CITY OF SAN JOSE

2006-2007 PROPOSED CAPITAL BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2006 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	4.25-5.125%	61,520
General Obligation Bonds, Series 2002	2032	3.0-5.0%	104,480
General Obligation Bonds, Series 2004	2034	4.0-5.0%	114,745
General Obligation Bonds, Series 2005	2035	3.0-7.5%	46,300
General Obligation Bonds, Series 2006*	2036	4.0-5.0%	110,100
HUD Section 108 Loan*	2024	Variable Rate	25,810
Total City of San José			<u><u>462,955</u></u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2032	Various	<u><u>75,007</u></u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2018	5.625-6.00%	10,481
Lease Revenue Bonds, Series 1997A	2027	5.30-5.60%	6,115
Lease Revenue Bonds, Series 1997B	2012	4.50-4.875%	3,330
Lease Revenue Bonds, Series 2000B	2030	4.70-5.50%	21,950
Lease Revenue Bonds, Series 2000C (Taxable)	2024	Variable Rate	20,650
Lease Revenue Bonds, Series 2001B (Taxable)	2024	Variable Rate	24,000
Lease Revenue Bonds, Series 2001C (Taxable)	2024	Variable Rate	18,500
Lease Revenue Bonds, Series 2001D	2026	Variable Rate	10,800
Lease Revenue Bonds, Series 2001E	2010	4.00-5.00%	10,080
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	171,800
Lease Revenue Bonds, Series 2002B	2037	3.00-5.25%	292,425
Lease Revenue Bonds, Series 2002C	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2003A	2023	3.00-4.70%	21,050
Lease Revenue Bonds, Series 2004A (Taxable)	2024	Variable Rate	9,225
Lease Revenue Bonds, Series 2005A (Taxable)	2029	Variable Rate	54,480
Lease Revenue Bonds, Series 2005B (AMT)	2034	Variable Rate	25,545
Lease Revenue Bonds, Series 2006A*	2039	4.00-5.00%	59,165
Revenue Bonds, Series 2001A	2026	3.80-5.25%	43,870
Commercial Paper Notes*	Short Term	Various	<u><u>81,984</u></u>
Total City of San José Financing Authority			<u><u>945,450</u></u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	2.00-5.85%	209,225
Housing Tax Allocation Bonds (Subordinate)	2035	Variable Rate	66,150
Redevelopment Tax Allocation Bonds	2033	2.00-6.00%	1,469,900
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	116,200
HUD Section 108 Loan	2016	Variable Rate	<u><u>3,705</u></u>
Total Redevelopment Agency			<u><u>1,865,180</u></u>

* Includes preliminary estimates for debt not yet issued or refunded as of the date of publication.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2006 by Individual Issue (Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 1994	2007	5.875%	1,795
Revenue Refunding Bonds, Series 1998A	2018	4.30-4.75%	9,975
Revenue Bonds, Series 2001A	2031	3.45-5.25%	149,120
Revenue Refunding Bonds, Series 2002A	2018	4.00-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	3.00-5.00%	30,420
Revenue Bonds, Series 2004A (AMT)	2034	Variable Rate	70,000
Revenue Bonds, Series 2004B (AMT)	2034	Variable Rate	70,000
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	75,730
Revenue Bonds, Series 2004D	2028	5.00%	34,270
Commercial Paper Notes*	Short Term	Various	8,087
San José-Santa Clara Clean Water Financing Authority			
Revenue Refunding Bonds, Series 2005A	2016	3.25%-5.00%	54,020
Revenue Refunding Bonds, Series 2005B	2020	Variable Rate	27,130
State of California Revolving Loan	Short Term	Various	49,154
Total Enterprise Funds			<u>633,301</u>
GRAND TOTAL			<u><u>3,981,893</u></u>

* Includes preliminary estimates for debt not yet issued or refunded as of the date of publication.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(C) Annual Requirements to Amortize All Bonds and Notes Outstanding
as of June 30, 2006*
(In Thousands of Dollars)

Year Ending June 30	City of San José**	Special Assessment Bonds	City of San José Financing Authority**	Redevelopment Agency	Enterprise Funds
2006	31,947	6,985	56,292	123,958	39,899
2007	37,816	6,991	55,576	132,856	40,122
2008	37,065	6,972	56,410	132,764	41,117
2009	36,326	6,967	58,879	132,718	41,077
2010	35,572	6,839	55,310	132,907	41,027
Thereafter	606,729	85,263	1,339,240	2,549,067	796,713
Total	785,456	120,016	1,621,708	3,204,271	999,957

* The following interest rates were used to project debt service for variable-rate bonds:

	Tax-Exempt	Subject to AMT	Fully Taxable
2006-2007 and Thereafter	3.50%	3.55%	5.00%

** Includes preliminary estimates for debt not yet issued as of the date of publication.